

TABLE B-2. CBO'S REVENUE REESTIMATES REFLECTING DIFFERENT ECONOMIC ASSUMPTIONS (By fiscal year, in billions of dollars)

Tax Source	1986	1987	1988	1989	1990	1991
Individual Income Taxes	-0.3	-2.8	-1.4	4.7	16.1	25.1
Corporate Income Taxes	1.7	2.6	-0.2	-2.0	-5.7	-9.9
Social Insurance Taxes	0.6	-0.8	-2.5	-2.2	0.7	7.5
Customs Duties	0.2	0.4	0.5	0.6	0.7	0.7
Other <u>a/</u>	<u>0.1</u>	<u>-1.1</u>	<u>-0.6</u>	<u>0.1</u>	<u>-0.5</u>	<u>-1.5</u>
Total Reestimates	2.2	-1.7	-4.2	1.2	11.1	21.9

SOURCE: Congressional Budget Office.

a. Estate and gift taxes, excise taxes, and miscellaneous receipts.

TABLE B-3. DIFFERENCES BETWEEN CBO AND ADMINISTRATION ECONOMIC ASSUMPTIONS ABOUT TAX BASES (By calendar year, in billions of dollars)

Tax Base	1986	1987	1988	1989	1990	1991
Taxable Personal Income	-3	-18	-6	34	91	173
Wage and Salary Disbursements	4	-11	-18	-8	33	85
Corporate Book Profits	11	<u>a/</u>	-8	-14	-32	-35

SOURCE: Congressional Budget Office.

a. Less than \$500 million.



CBO's forecast of economic profits is below the Administration's in 1986 and 1987, but projected book profits (a closer measure to taxable profits) are higher--by \$11 billion in 1986 and less than one-half billion dollars in 1987. This is because CBO's valuation of inventory profits is larger and its depreciation deductions for new investment are smaller than those of the Administration. CBO's lower investment assumptions lead to smaller estimates of tax credits taken on new investment. Together, these factors generate higher corporate income taxes in 1986, and in 1987 as well because of lags between corporations' receipt of income and their payment of the associated income tax. From 1988 through 1991, CBO's assumptions about both economic and book profits are below the Administration's by significant amounts. This results in negative reestimates of corporate income taxes by amounts that grow to \$10 billion by 1991.

Economic assumptions about international trade have become increasingly important in estimating revenues because of the dramatic growth in the last two years in imports and, therefore, customs duties. CBO's higher projection of imports generates almost \$1 billion more in duties each year after 1987 than the Administration projects.

REVENUE REESTIMATES REFLECTING DIFFERENT TECHNICAL ASSUMPTIONS

Technical reestimates are small, about \$1 billion or less from 1986 through 1988 and between \$3 billion and \$6 billion in each of the last three years of the projection period. On balance, these raise estimated budget revenues by \$12 billion over the six-year period (see Table B-4). They arise in estimates of both baseline revenues and the effects of proposed legislative and administrative changes.

CBO's estimates of baseline levels of unemployment insurance (UI) taxes are higher than the Administration's each year after 1986 because CBO assumes that, as estimated balances in trust funds grow, states will lower their UI tax rates more slowly than the Administration assumes. CBO's incorporation of recent data on the proportion of merchandise trade subject to duty and the effects of the changing composition of imports on the effective tariff rate results in higher customs duties projections than those of the Administration.

Reestimates of two proposals, taken together, account for \$5.9 billion or about half of all technical reestimates. First, CBO has discounted the Administration's claim to \$1.0 billion in petroleum overcharge restitution fees because it appears unlikely that legislation necessary to allocate the

fees to the federal government can be introduced and passed before the early March deadline for disposition of these funds. Second, CBO estimates that the revenue effects of the proposed limitation on pay increases for federal civilian employees will have no net effect on revenues. The Administration's \$6.9 billion revenue loss attributed to this administrative change requires the assumption that total wages in the economy will fall by the full amount of the pay reduction. CBO does not assume this to be a necessary outcome of such a policy change, thus raising projected budget revenues relative to Administration estimates by \$6.9 billion over six years. These and all other proposals with revenue effects are discussed in Chapter II.

TABLE B-4. CBO'S REVENUE REESTIMATES REFLECTING
DIFFERENT TECHNICAL ASSUMPTIONS
(By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	1991
Individual Income Taxes	0.7	1.7	-2.6	0.5	2.2	1.2
Corporate Income Taxes	-0.4	0.1	0.2	-0.1	a/	0.2
Social Insurance Taxes	-0.2	0.3	1.1	1.8	2.1	0.7
Customs Duties	-0.3	0.3	0.8	1.2	1.6	2.0
Other b/	<u>-0.4</u>	<u>-1.2</u>	<u>-0.4</u>	<u>-0.7</u>	<u>-0.3</u>	<u>a/</u>
Total Reestimates	-0.6	1.2	-0.9	2.7	5.5	4.2

SOURCE: Congressional Budget Office.

a. Less than \$50 million.

b. Estate and gift taxes, excise taxes, and miscellaneous receipts.





APPENDIX C

CBO OUTLAY REESTIMATES

As part of its analysis of the President's budget proposals, CBO has reestimated the Administration's outlay estimates using its own economic assumptions and technical estimating methods. By putting the two sets of estimates--the current policy baseline and the President's proposals--on a comparable footing, CBO provides its independent estimate of the budget impact of the policy changes that are proposed by the Administration.

Outlay reestimates stem from two sources: different economic assumptions and different technical estimating methods. Economic reestimates result from the use of different assumptions about unemployment, inflation, and interest rates. While the CBO and Administration forecasts are similar for 1986 and 1987, in later years the Administration assumes higher real economic growth, lower inflation, and lower interest rates than CBO (as discussed in Chapter I). Different economic assumptions primarily affect the spending projections for benefit programs such as Social Security and unemployment insurance, as well as the federal government's net interest costs.

Technical differences comprise estimating differences not directly attributable to economic assumptions. Assumptions about spendout rates--the speed at which budget authority in discretionary programs is translated into actual outlays--are one of the most important sources of technical reestimates. Other technical differences result from the use of more recent program data (such as crop projections), different evaluations of the proceeds and timing of asset sales, different assumptions about Treasury financing mix, and so forth.

CBO economic and technical reestimates combined add \$16 billion to the Administration's outlay estimates for 1987, and \$68 billion in 1991. These reestimates are discussed in more detail in the remainder of this appendix.

DIFFERENCES IN ECONOMIC ASSUMPTIONS

Different economic assumptions have little effect on the outlay estimates in 1986 and 1987 but account for large reestimates thereafter. By 1991, economic reestimates total \$46 billion--over half of which is attributable to higher interest costs. CBO's economic reestimates of the President's projected outlays are shown in Table C-1.

Most of the large retirement and disability programs--Social Security, veterans' compensation and pensions, federal civilian and military retirement, and others--are allowed cost-of-living adjustments (COLAs) in January of each year. The increase is based on the year-over-year increase

TABLE C-1. CBO OUTLAY REESTIMATES RESULTING FROM
DIFFERENT ECONOMIC ASSUMPTIONS
(By fiscal year, in billions of dollars)

Program Type	1986	1987	1988	1989	1990	1991
Social Security and Other Indexed Programs	a/	-0.5	a/	2.0	5.2	15.8
Unemployment Compensation, Food Stamps, and AFDC	a/	0.2	0.2	0.6	1.0	1.5
Medicare and Medicaid	a/	0.1	-0.2	-0.2	0.3	1.4
Net Interest and Other Interest-Sensitive Spending						
Due to different rates	-1.2	-1.7	3.8	11.4	20.3	24.4
Due to different deficits	-0.1	-0.3	a/	0.8	1.9	3.1
Subtotal	-1.3	-2.0	3.8	12.2	22.2	27.5
Total	-1.3	-2.3	3.8	14.5	28.6	46.3

SOURCE: Congressional Budget Office.

a. Less than \$50 million.

in the Consumer Price Index (CPI) in the third quarter of the previous year. CBO projects slightly lower inflation during the remainder of 1986 than does the Administration, leading to a slightly lower January 1987 COLA. In later years, CBO assumes modest annual declines in COLAs in contrast to the sharp declines used in the Administration's projections (Table C-2). The Administration's assumptions, in fact, imply no cost-of-living adjustment in January 1991 for Social Security and veterans' programs, because the year-over-year CPI increase falls below the 3 percent threshold specified in law.

The Administration assumes slightly lower unemployment rates during most of the 1987-1991 period than does CBO. As a result, CBO's estimates of outlays for unemployment compensation and other unemployment-sensitive programs are slightly higher than the Administration's, as shown in Table C-1.

The Medicare and Medicaid programs are sensitive to the rate of inflation in the health care sector, and the Medicaid program is sensitive to the unemployment rate. The Administration's budget includes a proposal to cap Medicaid growth after 1987 by the rate of medical care inflation. Because CBO assumes higher medical inflation, it reestimates the Administration's

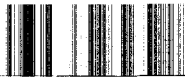
TABLE C-2. COST-OF-LIVING ADJUSTMENTS ASSUMED
BY ADMINISTRATION AND CBO (In percents)

Program	1987	1988	1989	1990	1991
Social Security and Veterans (January)					
Administration	3.7	4.3	3.6	3.3	a/
CBO	3.4	4.6	4.4	4.4	4.3
Military and Civil Service Retirement (January)					
Administration	3.7	4.3	3.6	3.3	2.7
CBO	3.4	4.6	4.4	4.4	4.3

SOURCES: Office of Management and Budget, Congressional Budget Office.

a. No cost-of-living adjustment.





outlays upward. Economic reestimates to Medicare and Medicaid total \$0.1 billion in 1987 and \$1.3 billion in 1987 through 1991.

By far the largest economic reestimate of outlays over the five-year period occurs in net interest and other interest-sensitive spending. As discussed in Chapter I, one of the sharpest differences between the Administration's and CBO's medium-term outlook lies in the interest rate assumptions. Both the Administration and CBO assume a decline in nominal interest rates over the five-year period, because of the federal government's commitment under the Balanced Budget Act to reduce deficits dramatically from current levels; and the Administration also assumes declining inflation. By 1991, both the Administration and the CBO assume a government bond rate about two and a half percentage points above the inflation rate and a short-term Treasury bill rate one to two percentage points above inflation--about equal to the average over the past 30 years. The CBO assumptions envision interest rates (adjusted for inflation) declining gradually during the intervening period as they approach these historical averages. The Administration, in contrast, assumes that inflation-adjusted rates return much sooner to their historical averages, as shown in Table C-3.

Projections of budget outlays depend on nominal interest rate assumptions. Because CBO's short-term interest rate assumptions are lower than the Administration's in 1986 (while the long-term rates are roughly the same), CBO estimates lower interest outlays for 1986 than does the Administration, as shown in Table C-1. Most of the reestimates occur in the net interest function--reflecting the government's interest costs on its borrowing and, as offsets, interest receipts on loans and on cash balances. (Other interest-sensitive outlays include guaranteed student loans, the Exchange Stabilization Fund, and Export-Import Bank programs.) While CBO's interest rate assumptions are slightly higher than the Administration's in calendar 1987, for most of the fiscal year short-term rates remain lower in the CBO forecast; as a result, CBO continues to project lower interest outlays in 1987. After 1987, however, CBO's economic reestimates due to interest rate assumptions are large and growing. In 1991, reestimates attributable to this source amount to \$24.4 billion.

CBO's net interest projections also reflect the additional borrowing necessitated by other economic reestimates of outlays and revenues. As shown in Table C-1, the added debt service costs resulting from CBO's economic reestimates of the President's budget range from \$-0.3 billion in 1987 to \$3.1 billion in 1991.

Table C-1, along with the discussion in the previous appendix of CBO's revenue projections, make clear the critical importance of economic assumptions in federal budget estimates. Nevertheless, all economic

assumptions are uncertain, especially those extending more than a few quarters into the future. Relatively small errors in the economic forecast can have large budget effects. A one-percentage-point change in the interest rate assumptions, for example, would add to CBO's estimate of the President's proposed outlays \$10 billion in 1987 and \$24 billion in 1991.

TECHNICAL ESTIMATING DIFFERENCES

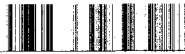
CBO's technical reestimates add \$18 billion to the President's outlay estimates in 1987 and \$101 billion over the entire period from 1987 through

TABLE C-3. NOMINAL AND INFLATION-ADJUSTED INTEREST RATES
ASSUMED BY ADMINISTRATION AND CBO
(By calendar year, in percents)

Rate	1986	1987*	1988	1989	1990	1991
Nominal Interest Rates						
3-month Treasury bills						
Administration	7.3	6.5	5.6	4.8	4.3	4.0
CBO	6.8	6.7	6.4	6.1	5.8	5.4
20-year Treasury bonds						
Administration	8.9	8.5	7.3	5.5	4.8	4.5
CBO	9.3	9.1	8.4	7.7	7.0	6.4
Inflation-Adjusted Interest Rates						
3-month Treasury bills						
Administration	4.0	2.3	1.9	1.5	1.5	1.9
CBO	3.2	2.6	2.3	2.0	1.7	1.3
20-year Treasury bonds						
Administration	5.6	4.3	3.6	2.2	2.0	2.4
CBO	5.7	5.0	4.3	3.6	2.9	2.3
Memorandum: Gross National Product Deflator						
Administration	3.3	4.2	3.7	3.3	2.8	2.1
CBO	3.6	4.1	4.1	4.1	4.1	4.1

SOURCES: Office of Management and Budget, Congressional Budget Office.





1991. As shown in Table C-4, these technical reestimates are primarily in six areas: defense, agriculture, net interest, receipts from the Outer Continental Shelf, and sales of the government's Naval Petroleum Reserve and Power Marketing Administrations.

Defense (Function 050)

CBO reestimates add \$14.5 billion to estimated defense outlays in 1987 and \$17.5 billion in 1988, gradually declining to \$10.6 billion in 1991. Over the entire five-year period, defense reestimates total \$68 billion. The reestimates occur primarily in three areas: operation and maintenance (O&M); procurement; and research, development, test, and evaluation (RDT&E). O&M contributes relatively little to the total reestimate in 1987, and RDT&E contributes little after 1989 (see Table III-2 in Chapter III).

TABLE C-4. CBO OUTLAY REESTIMATES RESULTING FROM
DIFFERENT TECHNICAL ASSUMPTIONS
(By fiscal year, in billions of dollars)

Program Area	1986	1987	1988	1989	1990	1991
Defense	3.7	14.5	17.5	13.8	11.7	10.6
Agriculture	4.5	2.3	3.8	0.1	-2.4	-1.5
Net Interest						
Due to different deficits	0.2	1.2	3.1	4.7	5.4	6.2
Other	-2.0	-2.5	1.0	0.7	-1.2	0.3
OCS Receipts	0.3	0.1	1.5	0.3	0.2	0.1
Naval Petroleum Reserves and Power Marketing Administrations	a/	1.2	1.0	-7.0	4.1	3.4
All Other	-1.9	1.1	1.8	0.7	1.0	2.0
Total	4.8	17.9	29.8	13.3	18.9	21.2

SOURCE: Congressional Budget Office.

1987 Reestimates. In fiscal year 1987, CBO estimates higher outlays both from budget authority requested for 1987 and from budget authority provided in earlier years. Specifically, CBO projects spending from new budget authority to be \$5.6 billion higher than the Administration. Spending from prior years' budget authority is projected by CBO to be \$8.9 billion higher. Table C-5 shows how these differences arise in the major accounts.

Because many defense activities require long-range planning and execution, defense budget authority is never spent entirely in the year it is made available. Outlay (or spendout) rates are the percentages of budget authority that are spent in the year of appropriation and following years. As such, they sum to 100 percent unless some amount of budget authority will lapse or never be spent. Estimating differences due to different outlay rates should tend to offset each other over time (as evidenced by the largely offsetting differences in O&M outlays for 1987 from new and prior years' appropriations).

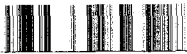
The estimating difference for 1987 O&M accounts is relatively small given the \$86 billion level of budget authority. The Administration has lowered its first-year O&M spendout rate from a year ago, to reflect an assumed slower spending program and other considerations. A difference of \$3.9 billion reflects a four-percentage-point difference in the CBO and Administration first-year outlay rates. This difference is offset for the most part in assumed second- and third-year rates, as reflected by CBO's lower estimate (\$3.2 billion) of outlays from prior years' budget authority. Thus

TABLE C-5. CBO AND ADMINISTRATION DEFENSE OUTLAY
ESTIMATING DIFFERENCES BY BUDGET TITLE FOR 1987
(In billions of dollars)

Budget Title	Outlays From 1987 BA	Outlays From Prior Year BA	Total Outlays
Operation & Maintenance	3.9	-3.2	0.7
Procurement	-0.1	9.7	9.6
RDT&E	1.8	2.2	4.1
All Other, Net	<u>-0.1</u>	<u>0.2</u>	<u>0.2</u>
Total	5.6	8.9	14.5

SOURCE: Congressional Budget Office.





the net difference in CBO and Administration estimates of O&M spending in 1987 is relatively small--only \$0.7 billion.

The net difference in procurement, \$9.6 billion, is much more significant both in absolute terms and as a percent of program (about \$90 billion per year since 1982). CBO's reestimate is almost entirely in outlays from prior-year authority. Procurement first-year spendout rates are very low, and so afford little room for disagreement. The spendout period for procurement is typically seven years or more. CBO estimates much higher outlays in 1987 from budget authority made available during the defense buildup begun by the previous Administration and accelerated during the current Administration.

Like procurement, the 1987 estimating difference in RDT&E is large in absolute and relative terms (about 10 percent of the 1987 request). Unlike procurement and O&M, the difference is split about evenly between outlays from new and prior-year budget authority. The first-year spendout rate for RDT&E is typically about 50 percent, but the remaining spending occurs over four or five years; in other words, the first-year rate is somewhat high (like O&M) and the spendout period is long (like procurement). As a result, there can be relatively large differences in first-year outlays without offsetting differences in outlays from prior-year authority.

1988-1991 Reestimates and the Relevance of Historical Spendout Rates. CBO's technical reestimates for 1988-1991 stem primarily from its application of historical spendout rates. The Administration, in contrast, implicitly uses spendout rates that are considerably lower than historical averages, citing management initiatives and other factors that it believes will lower these rates. For reasons that are discussed in Chapter III, CBO's view is that these management initiatives and other factors will not materially affect future spendout rates.

How well do historical spendout rates predict defense outlays? The spendout rates published by the Defense Department in its Financial Summary Tables published in conjunction with the 1987 budget are similar to CBO's assumptions and to historical experience. As discussed in Chapter III, CBO applied its own and the Department's spending rates to budget authority provided in previous years for the O&M, procurement, and RDT&E accounts to test their accuracy. Both sets of spendout rates produce similar results for the 1980-1985 period, as shown in Table C-6. For 1980 through 1983, current CBO and Defense Department spendout rates would both have underestimated actual outlays by \$3 to \$4 billion in each year, or by 2 to 4 percent. For 1984 and 1985, the current CBO and Defense Department spendout rates would have overestimated actual outlays by \$3 to \$6 billion, again by 2 to 4 percent. Over the entire six-year period, the average absolute percentage difference between these retrospective outlay estimates and actual outlays is about 3 percent, with the CBO rates slightly closer than the Administration's.

Applying the Defense Department's spending rates to its budget authority proposals for 1987-1991 produces outlays that are very close to CBO's estimates, as discussed in Chapter III. These projections are well above the Administration's outlay estimates. CBO concludes that the factors cited by the Administration that would lower spendout rates are likely to have little effect, and that as a result defense outlays are substantially underestimated in the President's budget.

Agriculture (Function 350)

CBO reestimates for agricultural outlays are dominated by those of the Commodity Credit Corporation (CCC). CCC outlays in 1986 are likely to be about \$4.3 billion above the levels projected by the Administration. CCC reestimates total \$1.9 billion in 1987 and \$2.6 billion over the 1987-1991 period. Generally, the reestimates are caused by differing assumptions concerning the supply and use of supported commodities and the Secretary of Agriculture's use of discretion in implementing provisions of the Food

TABLE C-6. DIFFERENCES BETWEEN OUTLAY ESTIMATES
AND ACTUAL OUTLAYS FOR O&M, PROCUREMENT,
AND RDT&E ACCOUNTS, 1980-1985
(By fiscal year)

Estimate Source	1980	1981	1982	1983	1984	1985
Billions of Dollars						
Administration Rates	-3.3	-4.0	-4.2	-3.4	3.1	6.4
CBO Rates	-2.9	-3.3	-3.5	-3.1	3.3	6.4

Percent						
Administration Rates	-3.8	-3.9	-3.5	-2.3	2.0	3.8
CBO Rates	-3.3	-3.2	-2.9	-2.2	2.1	3.8

NOTE: Negative values indicate that actual outlays exceeded the estimate.

SOURCE: Congressional Budget Office, based on data supplied by the Department of Defense.



Security Act of 1985. The 1986 reestimate is caused primarily by CBO's assuming lower levels of repayments of commodity loans on 1985 crops and slower implementation of the dairy termination program, in which producers will bid to remove their dairy herds from production in return for a government payment. CBO's estimate exceeds the Administration's in 1987 because CBO assumes that advance deficiency payments will be made on the 1987 and later crops, while the Administration assumes no such advance payments will occur.

The remaining reestimates are primarily attributable to the Agricultural Credit Insurance Fund (ACIF). The CBO estimates exceed the Administration's over the 1986-1989 period because CBO assumes lower repayments from the ACIF's existing loan portfolio.

Net Interest (Function 900)

Most of the technical reestimates of net interest result from the additional borrowing necessitated by other technical reestimates of revenues and outlays. These additional debt service costs add \$20.5 billion over the 1987-1991 period.

Other technical reestimates of net interest include several components. Net interest on the public debt is reestimated downward in 1986 and 1987, by \$1.6 billion and \$0.9 billion respectively, but upward in later years. Total reestimates are \$3.5 billion over 1987-1991. These reestimates result because CBO assumes lower interest payments on federal debt held by certain revolving trust funds and other funds in all years, based on the approximately two-percentage-point spread between the interest rates on this debt versus those on the debt held by non-revolving trust funds. The Administration assumes a much smaller spread. These downward reestimates are outweighed over time by additional outlays largely attributable to CBO's different financing mix assumptions. CBO assumes that only about one-fifth of new borrowing each year is accomplished through short-term Treasury bills, which carry lower interest rates than medium- and long-term securities. The Administration assumes one-half of new financing is in bills, although this would imply rapid escalation in weekly auction sizes and is at variance with recent Treasury practices.

CBO assumes about \$1 billion larger intragovernmental interest receipts in 1987, and smaller reestimates in other years, mainly as a result of larger receipts from the Commodity Credit Corporation and the Agricultural Credit Insurance Fund. These reestimates--which reduce net interest outlays--are offset by upward reestimates in those programs that borrow through the Treasury.

Net interest includes interest disbursements from escrow accounts containing Outer Continental Shelf receipts that are currently the subject of dispute between the federal government and the states. The Administration assumes that the bulk of the funds will be disbursed in 1988 and 1989, on terms favorable to the federal government. CBO assumes different timing and amounts of escrow releases, as discussed further below. These differing assumptions cause CBO's estimate of net interest to be slightly lower in 1987 but \$1.4 billion higher over 1987-1989, when all funds are assumed to be disbursed.

Other technical reestimates to net interest include CBO's estimate of higher interest receipts from loans based on different lending and repayment assumptions, smaller interest receipts from the foreign military sales program due to slower loan disbursements, and higher interest receipts from Treasury's cash balances in tax and loan accounts at commercial banks.

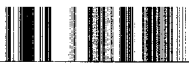
Outer Continental Shelf (Subfunction 953)

Differences between the President's budget and CBO's reestimate of Outer Continental Shelf (OCS) receipts are attributable primarily to different assumptions about escrow releases.

The disputes between the federal government and a handful of coastal states over the allocation of OCS receipts are in various stages of litigation or negotiation. These disputes arise because bonuses, rents, and royalties have been received for tracts that are adjacent to the boundary between federal and state jurisdictions. No agreement has been reached on the fair and equitable allocation of these receipts. CBO assumes that the Supreme Court will rule in 1987 on the boundary dispute with Alaska, and that other cases will be resolved in 1988 and 1989. CBO's estimates assign the federal government about 50 percent of the funds in dispute in most cases. CBO's 50 percent assumption is not a prediction of the legal outcome. Rather, the 50 percent figure reflects the midpoint of the two possible outcomes and is designed to make the budget projections less sensitive to errors in the OCS escrow assumptions. The Administration also assumes that most of the cases will be decided in 1988 and 1989, but on terms much more favorable to the federal government. The government would receive about 96 percent of the funds in dispute in the Administration's estimate.

Aside from escrow releases, CBO and the Administration differ less sharply on their estimated bonuses, rents, and royalties. CBO bases its 1987 estimate of bonuses on the proposed five-year schedule that was announced after the release of the President's budget, which includes three sales in 1987. CBO's outyear estimates are somewhat higher than the 1987 level (due to the unusually small number of sales in 1987). The Administration





assumes six lease sales in 1987 and projects outyear receipts on a sale-by-sale basis. CBO assumes lower royalties than the Administration, based on less optimistic oil and gas production assumptions.

Naval Petroleum Reserves and Power Marketing Administrations
(Subfunction 954)

The Administration proposes to sell a variety of government assets, including the Naval Petroleum Reserves (NPR) and the Power Marketing Administrations (PMAs), to the public. CBO's estimates of the timing and likely proceeds of these sales differ from the Administration's.

The Administration proposes to sell two oil fields--Elk Hills and Teapot Dome--to the private sector. The Administration projects total offsetting receipts of \$3.6 billion over the fiscal years 1987 and 1988. In the light of previous experience with sales of government assets, CBO expects that the sale will not be completed until 1988. CBO estimates total proceeds of \$2.4 billion, all of them in fiscal year 1988. The principal reason for the difference in estimates is the expected timing, because in the interim the fields continue to lose some of their proven reserves. CBO also bases its estimates on oil prices that are \$3 to \$4 per barrel lower than the Administration's. Income from the sale of the Naval Petroleum Reserves would be partly offset by reduced receipts in function 270, because the government would no longer generate receipts from the sale of NPR oil.

The Administration also proposes to sell the five power marketing administrations--Bonneville, Western Area, Southeastern, Southwestern, and Alaska--to the public. The Administration expects proceeds to total about \$14 billion over the 1988-1991 period. CBO assumes that Bonneville will be sold as a single entity and that the government will receive full payment in the year of sale. (CBO assumes that all receipts from the sale of Bonneville occur in 1989.) CBO also estimates a lower sales price than does the Administration for Bonneville, but a slightly higher price for other PMA assets. CBO's reestimates of the sale of PMAs total \$1.6 billion over the 1988-1991 period. The sale proceeds are partially offset by lower receipts in function 270.

Other Technical Reestimates

All other technical reestimates total \$1.1 billion in 1987 and \$6.7 billion over the 1987-1991 period. They are described in Table C-7.

CBO's reestimates of outlays for international affairs (function 150) result in lower outlays in 1987, primarily because the foreign military credit

program spends much more slowly than assumed by the Administration. This reestimate lowers outlays by \$2.1 billion in 1987 and by \$6.0 billion over the 1987-1991 period. Partly offsetting this reestimate is CBO's higher estimate of interest subsidies in the Eximbank program, which CBO treats as direct loans rather than as loan guarantees. The Eximbank reestimate adds \$0.3 billion in 1987 and \$3.2 billion in 1987-1991.

Technical reestimates for science, space, and technology (function 250) are attributable primarily to different spendout rates assumed by the Administration and CBO. The technical differences are largest in 1990 and 1991, and are related to spending for the proposed space station.

Reestimates for energy programs (function 270) make these projections consistent with the timing of asset sales in function 950. The government would continue to earn income from continued production until the Naval Petroleum Reserves and Power Marketing Administrations are actually sold. Remaining reestimates are attributable primarily to different spendout rates.

Spendout rates also account for the bulk of reestimates in the natural resources and environment function (function 300). CBO also projects higher spending for construction grants and Superfund, partially offset by greater timber receipts in all years except 1986.

The largest reestimates in the commerce and housing credit area (function 370) are for the Postal Service, the Federal Deposit Insurance Corporation (FDIC), and the Federal Savings & Loan Insurance Corporation (FSLIC). CBO projects lower net income for the Postal Service in 1987 and 1988, raising outlays by \$1 billion and \$300 million, respectively. After 1988, CBO assumes increases in postage rates sufficient to pay for additional retirement and health contributions proposed in the President's budget. The required increase is higher than estimated by the President, because the Administration did not reflect the cost of higher health contributions. CBO assumes that the FSLIC will incur higher outlays to assist troubled thrift institutions than projected by the Administration; these are partly offset by higher projected income for the FDIC.

CBO estimates more defaults under the federal ship financing fund than does the Administration, accounting for the largest technical reestimate in the transportation function (function 400). Other technical reestimates stem primarily from different spendout rates. Different spendout and disbursement rates also account for most of the technical reestimates in

TABLE C-7. OTHER CBO TECHNICAL REESTIMATES, BY FUNCTION
(In billions of dollars)

Function	1986	1987	1988	1989	1990	1991
150 International Affairs	<u>a/</u>	-2.1	-0.8	-0.4	-0.1	-0.3
250 General Science, Space, and Techno- logy	<u>a/</u>	-0.1	0.2	0.1	0.5	0.3
270 Energy	-0.2	0.4	-0.4	-0.5	-0.4	-0.8
300 Natural Resources and Environment	-0.3	<u>a/</u>	0.1	0.1	-0.2	-0.3
370 Commerce and Housing Credit	<u>a/</u>	1.8	0.5	-0.6	<u>a/</u>	-0.1
400 Transportation	0.2	0.1	0.2	0.6	0.5	0.7
450 Community and Regional Development	-0.1	-0.3	<u>a/</u>	-0.1	-0.7	-0.3
500 Education, Training, Employment, and Social Services	-0.1	<u>a/</u>	-0.1	-0.8	-0.6	-0.5
550 Health	-0.2	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
570 Medicare	-0.3	0.4	1.2	2.0	2.6	3.6
600 Income Security	-0.2	0.9	0.2	0.1	0.4	0.6
650 Social Security	-0.5	-0.1	0.3	0.2	-0.7	-0.9
700 Veterans' Benefits and Services	0.1	0.1	-0.1	-0.2	-0.5	-0.5
750 Administration of Justice	<u>a/</u>	0.1	0.2	0.2	0.2	0.2
800 General Government	<u>a/</u>	0.1	0.7	0.3	0.5	0.4
850 General Purpose Fiscal Assistance	-0.3	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	0.1
920 Allowances	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	-0.1
950 Undistributed Offsetting Receipts <u>b/</u>	<u>a/</u>	<u>a/</u>	-0.3	-0.4	-0.4	-0.2
Total	-1.9	1.1	1.8	0.7	1.0	2.0

SOURCE: Congressional Budget Office.

a. Less than \$50 million.

b. Excluding OCS receipts, sale of Naval Petroleum Reserves, and sale of Power Marketing Administrations.